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Increasing the Federal Minimum Wage H.R. 3833

Committee on Education & the Workforce
No Report Filed
Introduced by Mr. Shimkus on March 6, 2000

Floor Situation:

The House is scheduled to consider H.R. 3833 on Thursday, March 9, 2000. The Rules Committee is scheduled to meet on the bill at 2:30 p.m. on Wednesday, March 8, 2000. Additional information on the rule and potential amendments will be provided in a *FloorPrep* prior to floor consideration.

Summary:

H.R. 3833 amends the 1938 Fair Labor Standards Act (FLSA; *P.L. 75-718*) to increase the federal minimum wage by \$1 over three years. Specifically, the bill increases the minimum wage from its current level of \$5.15 to (1) \$5.48 on April 1, 2000; (2) \$5.81 on April 1, 2001; and (3) \$6.15 on April 1, 2002.

The measure also amends the FLSA to provide an exemption from minimum wage and overtime laws for certain “inside sales” employees, which the bill defines as people who work from within an employer’s establishment to sell to customers using the telephone, fax, and computer. The bill extends this new exemption to any employee in a sales position if the employee (1) has specialized or technical knowledge related to the products or services being sold; (2) makes sales predominately to persons to whom the employee has made previous sales, which does not involve initiating sales contracts entirely on cold calls; (3) receives an annual base compensation, regardless of the number of hours worked, of one and one-half times the minimum wage multiplied by 2,080 (wherever a higher state or local minimum wage prevails, the minimum compensation threshold will adjust accordingly); and (4) receives incentive compensation based on each sale made that is equal to at least 40 percent of the employee’s minimum base compensation. Even if an employee receives a higher base wage, the minimum incentive compensation figure remains based on a proportion of the minimum base wage.

In addition, the measure exempts from minimum wage and overtime laws (1) funeral directors and licensed embalmers, and (2) computer professionals whose primary duties include systems and database analysis and design, as well as training or managing employees who perform such duties.

Background:

In 1938, Congress enacted the Federal Labor Standards Act (FLSA; *P.L. 75-718*), the primary federal statute that governs the minimum wage and related issues. At the time of its inception, the minimum wage was considered a necessary wage floor, important for ensuring a responsible relationship between the worker and the employer. Over the years, it has become a controversial issue. There is a wide gulf between those who view a higher minimum wage as necessary to reducing poverty, and those who assert that it treads upon and reduces the efficiency of the market.

The federal minimum wage is set by statute and remains at its statutory level unless specifically altered by Congress. Some states have minimum wage standards that are higher than that of the FLSA: where coverage overlaps, the higher standard normally prevails.

The law has undergone comprehensive amendment eight times: in 1949, 1955, 1961, 1966, 1974, 1977, 1989, and 1996. In 1977, Congress legislated a series of steps to increase the minimum wage for covered

workers. The first increase to \$2.65 per hour took place on January 1, 1978; others followed through 1981. Throughout this period of mandated increases, inflation eroded the real value of the increase. The minimum wage fell below the real cost of living.

Congress included limited tax relief in the 1996 law (*P.L. 104-188*) to offset the \$1 increase in the minimum wage (over two years). Specifically, the law (1) increased expensing for small businesses; (2) modified the rules regarding Subchapter S corporations to make it easier for small businesses to expand; (3) established a new simplified pension plan for small businesses with fewer than 100 employees; (4) extended a number of expiring tax credits; and (5) established charitable risk pools to allow organizations to pool insurance costs for their members in order to reduce premium costs. Finally, the measure established a \$5,000 tax credit to encourage a greater number of adoptions.

By the end of the 1990s, approximately 80 million workers were subject to the wage requirements of the FLSA, though most were actually paid substantially in excess of that rate. The general minimum wage under the FLSA, set by the 1996 FLSA amendments, is now \$5.15 per hour. In 1998,

Minimum Wage Increases		
Public Law	Date of Effect	Amount
(P.L. 75-718)	October 1938	\$0.25
	October 1939	\$0.30
	October 1945	\$0.40
(P.L. 81-393)	January 1950	\$0.75
(P.L. 84-381)	March 1956	\$1.00
(P.L. 87-30)	September 1961	\$1.15
	September 1963	\$1.25
(P.L. 89-601)	February 1967	\$1.40
	February 1968	\$1.60
(P.L. 93-259)	May 1974	\$2.00
	January 1975	\$2.10
	January 1976	\$2.30
(P.L. 95-151)	January 1978	\$2.65
	January 1979	\$2.90
	January 1980	\$3.10
	January 1981	\$3.35
(P.L. 101-157)	April 1990	\$3.80
	April 1991	\$4.25
(P.L. 104-188)	October 1996	\$4.75
	September 1997	\$5.15
Pending Changes in the Bill	April 2000	\$5.48
	April 2001	\$5.81
	April 2002	\$6.15

Source: Congressional Research Service

about 4.4 million wage and salary workers, paid on an hourly basis, earned at or above \$5.15 per hour, approximately 1.6 million earned \$5.15 per hour, and roughly 2.8 million earned less than \$5.15 per hour.

Debate Over the Minimum Wage

The debate over the minimum wage turns on this question: Does it lift the working poor out of poverty or lock them out of the job market?

Where is the Economic Calamity? On one side of the debate are supporters of increasing the minimum wage, who assert that the theory of supply and demand does not apply so neatly to the reality of labor markets. They note that higher wages often garner greater loyalty and effort. Payroll costs go up, but employers may gain productivity and reduced turnover, training, and recruitment costs. Employers who can't find reliable help are usually the ones paying the lowest wage possible.

In addition, supporters note, employment rates are influenced by a much more significant factor, the Federal Reserve. It is up to the Fed to let the economy grow at its most robust potential, which results in "full employment." In such a tight labor market, employers are able to absorb increased payroll costs. Of late, the Fed has raised interest rates on account of what it perceives as an "inflationary" labor market—that is, too many workers and not enough jobs. If this is the case, why not lift the wages of those at the bottom?

Employment inflation, in fact, takes place at the high end of the labor market; in the high technology sector, for example. Tight labor markets give high-wage, high-skilled employees more bargaining leverage with their employers, which can eventuate in inflation. However, the minimum wage is targeted to low-skilled workers who have little, if any, bargaining leverage.

Finally, supporters point to the last minimum wage increase, which was enacted in 1996. During this period, unemployment fell steadily, most significantly among minorities, teenagers, and individuals without college degrees—a far cry from the dire predictions of minimum wage opponents. In 1999, for example, the unemployment rate among black men fell to a record low level. Supporters note that 72 percent of minimum wage workers are adults with family incomes about \$15,000 below the national average. A dollar-an-hour increase will put \$2,000 more a year in their pockets. Where is the economic calamity here?

Does the Minimum Wage Do More Harm than Good? On the opposing side of the debate are employers such as small business owners, who believe that a government-mandated minimum wage distorts market forces of supply and demand: If the price of something is raised (in this case labor), people will buy less of it. Hence, if an employer has a set amount to spend on payroll, and the price of labor goes up, that fixed amount will be divided among fewer workers. Such effects are felt most acutely by small business owners who often can ill afford reductions in their slender profit margins.

Opponents of minimum wage hikes assert that forcing employers to cut their workforce causes a labor displacement effect, the brunt of which is invariably borne by low-skilled adults, who are the first victims of the employer's chopping block. Critics note that with most of the increases in the minimum wage since the 1960s, welfare rolls swelled. A Wisconsin University study of 1980s wage increases found that welfare mothers in states that raised the minimum wage stayed on welfare rolls 44 percent longer than their counterparts.

Critics contend that wages are inextricably tied to skills, that another increase will lock out from the workforce the very individuals such increases are designed to help: the poor and the low-skilled. U.S. Census Bureau figures show that the average income of minimum wage employees increases by 30 percent within one year of employment. This is why only 2.8 percent of employees above the age of 30 work at the minimum wage; as they accumulate skills, they get raises. Aside from its impact on low-skilled adults, opponents assert that another hike will dramatically increase the number of low-skilled teens who are out of school and unemployed. Employers substitute high-skilled teens when the price of labor goes up.

Opponents of minimum wage increases favor a tax incentive approach such as the Earned Income Tax Credit (EITC), which benefits the working poor without affecting employer demand for workers. As then-Governor Clinton himself noted in 1992: “We can increase the earned income tax credit by a couple billion dollars a year and, far more efficiently than raising the minimum wage, lift the working poor out of poverty.”

Costs/Committee Action:

A CBO cost estimate was unavailable at press time.

The bill was not considered by a House committee.



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